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the Massachusetts Turnpike Authority

1996

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The Massachusetts Turnpike Authority set a new course in 1996, under the leadership of Chairman James J. Kerasiotes.

Since his appointment on July 1, 1996, Kerasiotes - - and a new MassPike management team - - has cut operating expenses by \$6.5 million and enhanced the turnpike's opportunities to increase revenues from leasing and real estate.





Letter from the Chairman

MassPike is reinventing itself as an organization that treats its customers in a friendly, efficient manner. For the safety and convenience of motorists, this means waving vehicles through toll plazas when traffic backs up onto the main turnpike; scheduling construction during off-peak hours; setting realistic speed limits; allowing stranded motorists to use their own towing companies; and employing courteous toll collectors.

It also means running MassPike as an owner would run a business. Unduly generous benefits for managers have been cut, unnecessary gold plating of construction projects canceled.

MassPike is a public asset whose value we intend to enhance. The Massachusetts Turnpike Authority owns considerable land and air rights. After appropriate consultation with local communities, the private development of such property will augment MassPike's revenue stream.

To the people who lent their money to the MTA, be assured that your dollars are secure and your investment safe. Our policy is to treat every dollar spent as if it were our own.

My goal for MassPike is simple and direct: Run a safe road efficiently and economically, take seriously the needs of customers, and explore new business opportunities. That is what we started to do in 1996, and will continue for years to come.

Welcome to the new Massachusetts Turnpike Authority.

A large, stylized handwritten signature in dark ink, reading "James J. Kerasiotes".

James J. Kerasiotes, Chairman

Toll Reductions


For the first time in the 45-year history of MassPike, tolls were reduced for passenger vehicles and light trucks, creating a 51.1 mile “free travel zone” in Western Massachusetts between Exits 1 and 6. In addition, under the new toll structure, a motorist traveling the length of the turnpike up to the Route 128 interchange pays \$3.10 rather than \$5.10.

The elimination of tolls for Class 1 vehicles was a first step toward the elimination of tolls for non-commercial vehicles west of the Route 128 interchange.

The reductions came in two phases. On July 14, 1996, tolls between Exits 1 and 4 (West Stockbridge, Lee, Westfield and West Springfield) were eliminated. On Sept. 25, 1996, tolls on Exits 5 and 6 (Chicopee and Springfield) were eliminated, as was the toll at Exit 16 (West Newton).

Elimination of the toll at Exit 16 in West Newton — a toll that was not even collected during off-peak traffic hours — saves motorists entering or leaving the turnpike extension 25 cents at Exit 16.

The targeted toll reductions will not affect MassPike's bottom line. While the reductions comprise a large portion of an \$8.1 million reduction in total turnpike revenue projected for 1997, operating expenses for 1997 were cut \$12 million.

CL	AX	PL	LN	DAY	TIME	COLL	SER NO
E							
X							
LEE							
AUTO RATE							
MASSACHUSETTS TURNPIKE							
 COUNT YOUR CHANGE	AUTOS	0.00	0.00	0.00	0.00	0.00	0.25
	EXIT	1	3	4	5	6	7
							8
							9
							10
							11
							11A
							12
							13
							14
							15
							SEE REVERSE FOR OTHER CLASS
DO NOT BEND FOLD OR MUTILATE THIS TICKET IF TICKET IS LOST MAXIMUM TOLL WILL BE COLLECTED STATE POLICE 617-431-6050 RMMA 7							

Toll Waiving

One of the first actions the MTA board took under the leadership of Chairman Kerasiotes was to initiate a policy of waiving tolls for the safety of MassPike drivers when backups occur at toll plazas.

The new policy allows the State Police to authorize toll collectors to wave motorists through when exit ramp traffic builds up at toll booths and spills back onto the turnpike.

While such situations are not frequent, backups do occur at toll plazas, especially during holiday traffic peak hours. Slowly moving vehicles forced to queue up on the turnpike before entering an exit ramp pose a potential danger for faster moving through traffic. The new policy eliminates those backups.

For the first six months this new policy was in effect in 1996, some 350,000 vehicles were waved through toll booths during heavy traffic backups.

The toll waiving policy reflects MTA's belief that safety and convenience of those who drive MassPike go hand in hand.

Consistent Speed Limit

Prior to July 1, the speed limit on the turnpike west of Route 128 was not consistent. Certain segments had a 65 mph speed limit while others had a 55 mph speed limit. The new administration ended this confusion by establishing a uniform 65 mph speed limit on the turnpike and a uniform 55 mph speed limit on the Boston Extension.

65 mph Interchanges 1 - 15	55 mph Interchanges 15 - 24
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Route 146 Interchange

Work progressed in 1996 on the new MassPike interchange in Millbury, at the junction with Route 146.

The new interchange being built by MassPike, and a new four-lane limited access connector highway being built by the Massachusetts Highway Department, will provide a quick ride from the turnpike to downtown Worcester, the heart of New England's second-largest city.

The \$240 million interchange and connector highway is the second largest transportation project in the Commonwealth after the Central Artery/Ted Williams Tunnel in downtown Boston.

Besides providing direct access to downtown Worcester, the interchange will give communities in the Blackstone Valley a direct link to MassPike via Route 146.

MassPike reached completion stage for the new Greenwood Street bridge and a new ramp bridge in 1996. The old Greenwood Street bridge will be removed in 1997 after traffic is relocated onto the new bridge. MassPike also widened the turnpike eastbound for what will eventually become a truck climbing lane and a widened on-ramp for the new interchange.

Ted Williams Tunnel

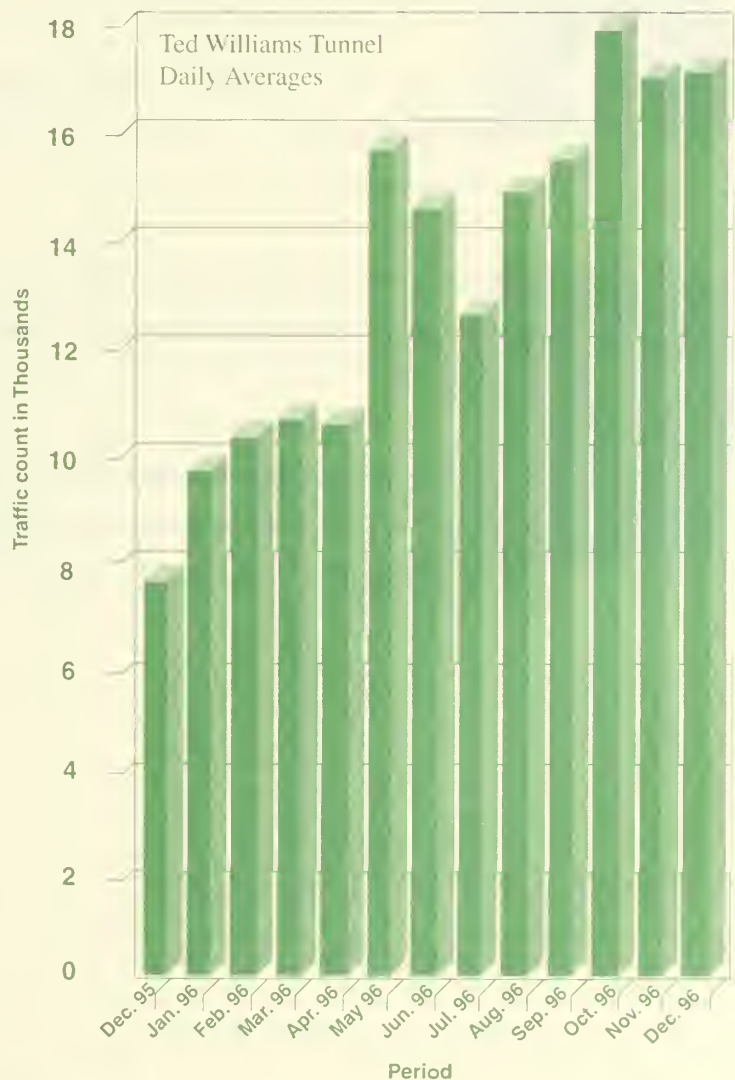
The Ted Williams Tunnel marked its first full year of operation in 1996, and showed signs of its power as a traffic decongestant. While the 1.6 mile tunnel will not reach its full potential until completion of the Central Artery/Tunnel project, 1996 statistics for the TWT were indeed impressive. Some 4,731,338 vehicles used the tunnel, generating income of nearly \$4.7 million. Traffic at the frequently clogged Sumner Tunnel, meanwhile, declined 5.4 percent.

The tunnel was opened to all traffic from midnight Fridays through midnight Sundays, and on holidays. It was also opened for extended periods during peak traffic times such as Thanksgiving week and for two weeks at the end of the year.

MassPike permits residents of South Boston, East Boston and the North End to use the TWT through a sticker program. More than 1,000 local residents signed up for this program in 1996.

After the sticker program proved its worth, MassPike worked with Massport and other airport employees, and with taxi and livery drivers, to expand the use of *MassPass*, the turnpike's electronic toll collection system which allows motorists to go through the TWT without stopping. *MassPass* transactions increased at the TWT from 1,600 in January 1996 to 51,000 in January 1997.

The tunnel played a critical role in relieving traffic congestion when a truck struck a column on the lower deck of I-93 in the spring of 1996, forcing motorists to seek alternate routes to downtown. During the period of deck reconstruction, the TWT was open to all traffic. The tunnel will now open to all traffic in the event of any similar emergency.



Metropolitan Highway System

A bill to create a Metropolitan Highway System (MHS) was first proposed in January 1995 as a way of integrating the system of tunnels and highways that will be connected through the completion of the Central Artery/Tunnel project.

In December 1996, MassPike and the Executive Office of Transportation filed a joint feasibility study for the proposed MHS as required under a law passed in July 1995. The study included a series of recommendations and proposed MHS legislation.

The elements of MHS include the tunnels (Sumner, Callahan and Ted Williams), the central artery north area, and the Boston extension of MassPike. The Tobin Bridge will remain in the hands of the Massachusetts Port Authority, but will be integrated operationally into the MHS.

As proposed, MHS creates a unified transportation network in Boston. MassPike will have two cost centers, with Route 128 serving as the east-west boundary.

MHS integrates the operation of facilities now administered by three different public entities - the Massachusetts Highway Department, Massport, and MassPike.

As of the printing of this document, Governor William F. Weld has signed MHS into law. The MTA wants to thank the Weld-Cellucci Administration and the Legislature for its support and quick action.

James J. Kerasiotes, Chairman

James J. Kerasiotes was appointed Chairman of the Massachusetts Turnpike Authority on July 1, 1996. He is also currently Secretary of Transportation, a position he has held since December 1, 1992. As Secretary, he oversees the Massachusetts Highway Department, the Massachusetts Bay Transportation Authority, the Massachusetts Aeronautics Commission and the Commonwealth's Regional Transportation Authorities. Jim is a graduate of the State University of New York at New Paltz and received a Master's degree from Northeastern University.



Thomas J. Curley, Jr., Vice Chairman

Thomas J. Curley, Jr. was appointed Board Member in July 1991. He is a partner in the law firm of Campoli and Curley. Tom has also worked with Goodwin, Procter & Hoar, the United States Department of Justice, and the Special Commission Concerning State and County Buildings. Tom is a graduate of Harvard University and received his law degree from Suffolk University.



Ann M. Hershfang, Board Member

Ann M. Hershfang was appointed Board Member in July 1988. Ann has also served as Undersecretary of Transportation, Director of the Massachusetts Port Authority, Transportation Chairwoman of the Massachusetts League of Women Voters, and is a founding member of both the South End Committee on Transportation and WalkBoston, a pedestrian advocacy group. Ann is a graduate of Radcliffe College.





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Financial Statements and Notes

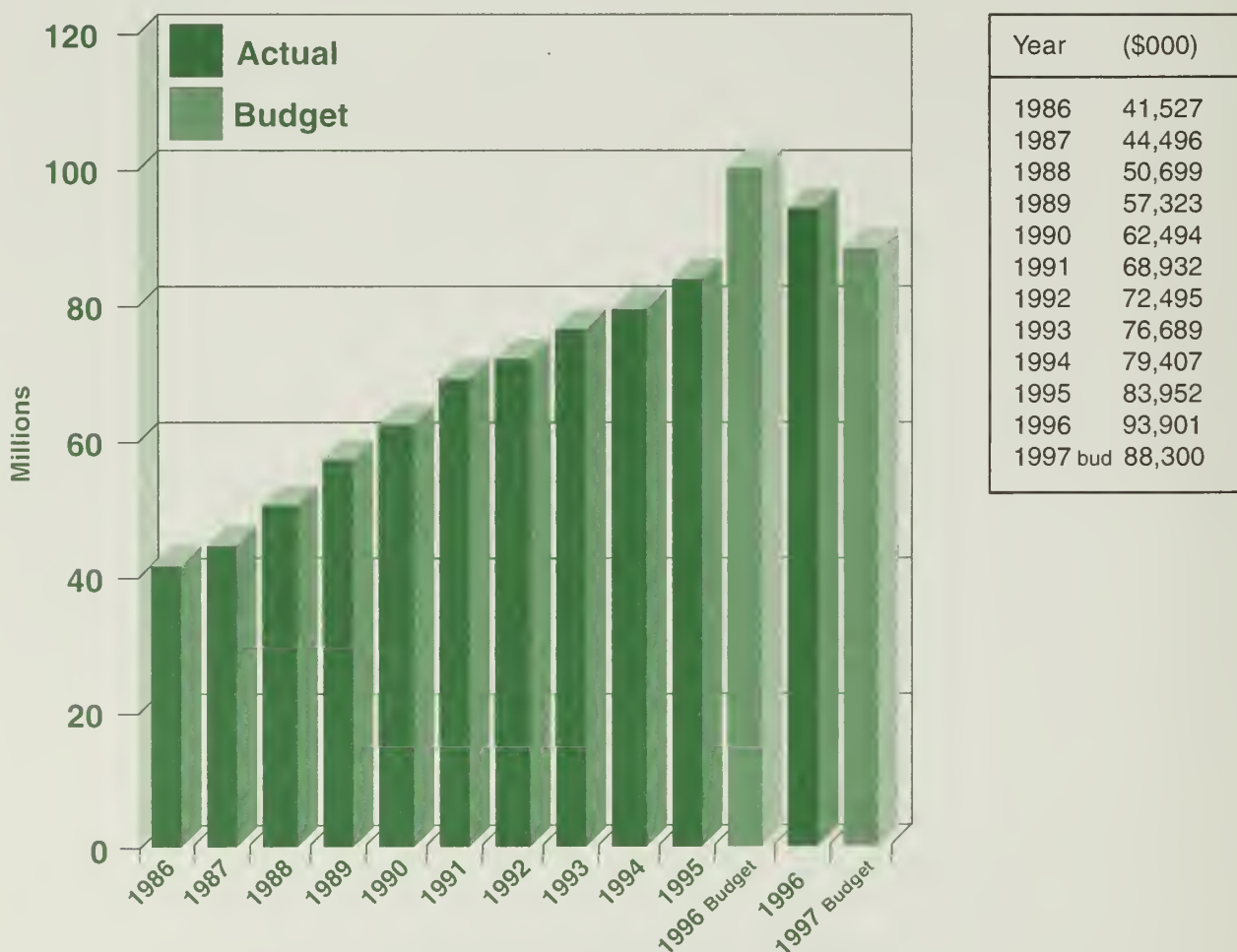
*Massachusetts Turnpike Authority
Sumner and Callahan Tunnels
Ted Williams Tunnel*

Financial Highlights

The Authority budget is funded almost exclusively by turnpike and tunnels tolls - no state or federal money or gas tax revenues are received by the Massachusetts Turnpike Authority. The authority does not make a profit and it is not structured as a profit making organization.

Toll reductions, offset by major expense savings, marked the 1996 transition year. 1996 actual operating expenses for the Turnpike and the Tunnels were \$93.9 million, 6.5 million (6.5%) under budget, while total revenues were \$170.0 million, only \$2.7 million (1.6%) under budget. The substantial savings in expenses were generated through higher management efficiency of the Authority's resources and tunnels' work force. Toll reductions at the Turnpike had a lower than projected impact on total Authority revenue due to strong revenue generated by the tunnels, which exceeded budget by \$2.5 million.

1986-1997 Operating Expenses*



* 1996 and 1997 include Ted Williams Tunnel's operation.

See Accompanying note 3.

Massachusetts Turnpike Authority
Balance Sheets
As of December 31, 1996 and 1995

	<u>1996</u>	<u>1995</u>
Assets		
Cash <i>(Note 4)</i>	\$ 28,209,075	\$ 13,781,024
Restricted Investments <i>(Note 2 and 4)</i>	214,397,116	242,512,553
Investments of Deferred Compensation Plan	15,047,325	12,683,432
Receivables	4,375,444	4,418,753
Inventories	1,286,012	1,294,592
Fixed Assets, Net <i>(Note 5)</i>	751,872,183	649,579,399
Other Assets	5,027,506	8,114,691
Total Assets	<u>\$1,020,214,661</u>	<u>\$932,384,444</u>
 Liabilities and Fund Balance		
Liabilities		
Accounts Payable	\$ 10,235,693	\$ 15,762,682
Accrued Payroll	845,037	649,960
Other Accrued Expenses, Deferred Credits & Other Liabilities	26,868,054	26,803,076
Compensated Absences	5,650,824	7,697,864
Due to Commonwealth of Massachusetts <i>(Note 2)</i>		100,000,000
Deferred Compensation Benefits Payable	15,047,325	12,683,432
Bonds and Note Payable	604,186,089	410,884,846
Total Liabilities	662,833,022	574,481,860
 Fund Balances		
Fund Equity	357,381,639	357,902,584
Total Fund Balances	<u>357,381,639</u>	<u>357,902,584</u>
 Total Liabilities and Fund Balance	<u>\$1,020,214,661</u>	<u>\$932,384,444</u>

See accompanying notes.

Massachusetts Turnpike Authority
Statements of Revenues, Expenses and Changes in Fund Equity
Year Ended December 31, 1996 and 1995

	<u>1996</u>	<u>1995</u>
Operating Revenues <i>(Note 3):</i>		
Toll Revenue, Net	\$157,680,842	\$153,425,561
Other Operating Revenue	<u>12,012,295</u>	<u>13,230,448</u>
Total Operating Revenues	169,693,137	166,656,009
 Operating Expenses <i>(Note 3):</i>		
Operations and Public Protection	74,238,880	62,060,680
Repair and Reconstruction	40,035,922	57,432,168
Administrative	26,255,375	16,152,478
Retirement	<u>5,563,437</u>	<u>5,954,170</u>
Total Cost of Services and Administration	146,093,614	141,599,496
Depreciation	<u>28,114,977</u>	<u>21,982,308</u>
Total Operating Expenses	<u>174,208,591</u>	<u>163,581,804</u>
Operating (loss) Income	(4,515,454)	3,074,205
 Non-operating Revenues (Expenses):		
Interest Income	9,407,391	10,105,992
Interest Expense	<u>(4,465,368)</u>	<u>(1,345,753)</u>
Total Non-operating Revenues, Net	4,942,023	8,760,239
Income Before Extraordinary Item	426,569	11,834,444
Extraordinary Loss on Early Retirement of Debt <i>(Note 6)</i>	<u>(947,514)</u>	<u>(305,532)</u>
Net (Loss) Income:	(520,945)	11,528,912
 Fund Equity at Beginning of Year	357,902,584	346,373,672
Fund Equity at End of Year	<u><u>\$357,381,639</u></u>	<u><u>\$357,902,584</u></u>

See accompanying notes.

Massachusetts Turnpike Authority
Statements of Cash Flows
Year Ended December 31, 1996 and 1995

	<u>1996</u>	<u>1995</u>
Cash Flows From Operating Activities		
Operating (Loss) Income	\$ (4,515,454)	\$ 3,074,205
Adjustments to Reconcile Operating (Loss) Income to Net Cash Provided by Operating Activities:		
Depreciation	28,114,977	21,982,308
Changes in Operating Assets and Liabilities:		
Receivables	43,309	(294,357)
Inventory	8,580	(144,603)
Other Assets	3,087,185	(3,066,887)
Accounts Payable	(5,526,989)	6,025,134
Accrued Payroll	(195,077)	1,061,672
Other Accrued Expenses, Deferred Credits & Other Liabilities	(64,978)	3,400,611
Compensated Absences	(2,047,040)	1,117,998
Net Cash Provided by Operating Activities	<u>18,904,513</u>	<u>33,156,081</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and Construction of Capital Assets	(230,407,761)	(119,032,998)
Interest on Bonds and Notes	(1,221,874)	(1,212,384)
Proceeds from Debt Issuance	264,770,459	
Defeasance of Debt	(56,572,964)	
Principal Payments on Bonds and Note	(18,567,150)	(8,900,532)
Net Cash Used for Capital and Related Financing Activities	<u>(41,999,290)</u>	<u>(129,145,914)</u>
Cash Flows From Investing Activities		
Purchases of Investments	(6,869,280,307)	(1,191,705,503)
Sales and Maturities of Investments	6,897,395,744	1,279,793,564
Interest Income	9,407,391	10,105,992
Net Cash Provided by Investing Activities	<u>37,522,828</u>	<u>98,194,053</u>
Net Increase In Cash	14,428,051	2,204,220
Cash at Beginning of Year	13,781,024	11,576,804
Cash at End of Year	<u>\$ 28,209,075</u>	<u>\$ 13,781,024</u>

See accompanying notes.

Massachusetts Turnpike Authority
Notes to Financial Statements
December 31, 1996 and 1995

1. Financial Reporting Entity

The Massachusetts Turnpike Authority (the Authority) operates two separate and financially distinct facilities: the Massachusetts Turnpike (the Turnpike) and the Sumner–Callahan–Ted Williams Tunnels (the Tunnels). The acquisition, construction, and reconstruction of the Turnpike and the Sumner–Callahan–Williams Tunnels and related facilities were financed by revenue bonds. The Authority does not receive any federal or state funding. Principal and interest payments on the Authority's bonds and the funds providing for the maintenance, operation, and policing of the Massachusetts Turnpike and Sumner–Callahan–Williams Tunnels are derived solely from tolls and other revenues.

As discussed further in Notes 2 and 6, in January 1996, the Authority issued \$259,315,000 Guaranteed Bond Anticipation Notes to finance the acquisition, opening and operation of the Ted Williams Tunnel, as well as to advance refund certain debt and to finance certain repairs and improvements to the Sumner and Callahan Tunnels. The Notes are unconditionally guaranteed by the Commonwealth. As such, the Authority is a component unit of the Commonwealth and will be included in the Comprehensive Annual Financial Report of the Commonwealth beginning with the Commonwealth's fiscal year ending June 30, 1996.

2. The Enabling Acts

By Chapter 354 of the Acts of 1952 of the Commonwealth, the Authority was duly created as a body politic and corporate and a public instrumentality of the Commonwealth and was authorized and empowered to construct, maintain, repair, and operate a toll express highway, known as the Massachusetts Turnpike. Chapter 598 of the Acts of 1958 authorized and empowered the Massachusetts Turnpike Authority to acquire, from the city of Boston, the Sumner Tunnel and to construct an additional vehicular tunnel between Boston proper and East Boston (known as the Callahan Tunnel), and to operate and maintain both facilities. The Authority is directed by a Board of three members who are appointed by the Governor of the Commonwealth.

Chapter 102, as amended by Chapter 273, of the Acts of 1995, authorized the transfer of ownership of the Ted Williams Tunnel from the Commonwealth to the Authority. The 1995 Acts also authorized the Authority to issue up to \$300,000,000 of notes to finance an initial \$100,000,000 partial payment to the Commonwealth toward the acquisition cost of the Ted Williams Tunnel and other purposes outlined below. As of December 15, 1995, the Commonwealth granted the authority an easement to operate and maintain the tunnel.

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

The Ted Williams Tunnel opened for commercial traffic on December 15, 1995, and its operations have been included in the accompanying financial statements since December 15, 1995. Revenues relating to the Ted Williams Tunnel for the period from December 15, 1995 to December 31, 1995 were approximately \$129,000. The \$100,000,000 payment has been included in fixed assets in the accompanying financial statements. As the Commonwealth completes the Central Artery/Third Harbor Tunnel project and as title is transferred, additional acquisition costs are expected to be assessed to the Authority relating to the Ted Williams Tunnel.

On January 15, 1996, the Authority issued \$259,315,000 Guaranteed Bond Anticipation Notes to finance the \$100,000,000 payment for the acquisition of the Ted Williams Tunnel, as well as to advance refund the outstanding Massachusetts Industrial Finance Agency (MIFA) Tunnel Revenue Bonds (see Note 6), to finance a portion of the cost of certain repairs and improvements to the Sumner and Callahan Tunnels and to fund certain start-up costs associated with opening and operating the Ted Williams Tunnel.

3. Summary of Significant Accounting Policies

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The underlying records of the Authority are maintained in accordance with accounting practices consistent with the provisions of the Supplemental Trust Agreement dated January 1, 1962, the 1993 Trust Agreement dated March 1, 1993, the First Supplemental Trust Agreement dated March 1, 1993, and the Loan and Trust Agreement dated October 1, 1990. Consequently, the financial statements reflect certain adjustments necessary to conform the underlying records to generally accepted accounting principles. The Authority did not present financial statements prepared in accordance with generally accepted accounting principles in years prior to 1995.

As permitted by Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the Authority elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statement or interpretation.

Fiscal Year - The Authority's fiscal year is the calendar year.

Investments - Investments are stated at amortized cost which approximates market value. The cost of securities sold is based upon the specific identification method.

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

Inventories - Inventories consist primarily of sodium chloride, calcium chloride, sand, bulk gasoline, highway guardrails, and printed toll tickets. Inventories are valued at cost, determined by the first-in, first-out method.

Fixed Assets - Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the corresponding assets which are as follows:

Infrastructure	50 years
Buildings	30 years
Improvements to Turnpike and Tunnels	30 years
Equipment	12 years

The costs of normal maintenance and repairs are not capitalized. In addition, the cost of certain equipment used in the administration and maintenance of the Turnpike and Tunnels such as police and other light vehicles and office equipment have not been capitalized since the replacement cost of such items is materially consistent from year to year and the estimated useful lives are short.

In accordance with Statement of Financial Accounting Standard No. 62, interest is capitalized on fixed assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. In fiscal year 1996, net interest cost capitalized amounted to \$23,195,428 which was comprised of interest expense of \$30,121,742 less interest income of \$6,926,314. In fiscal year 1995, net interest cost capitalized amounted to \$17,629,480 which was comprised of interest expense of \$23,365,292 less interest income of \$5,735,812.

Revenue Bond Discounts and Issuance Costs - Revenue bond discounts and issuance costs are deferred and amortized on a straight-line basis over the term of the bonds. Bond discounts are presented as a reduction of the face amount of bonds payable.

Revenue - All cash tolls received by the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels are deposited with a depository bank. On a monthly basis, these monies are transferred to the Trustee and allocated among the various funds in accordance with the provisions of the Trust Agreements. All other revenues are deposited with the Trustee directly. All revenues deposited with the Trustee are continuously secured for the benefit of the Authority and bondholders by marketable securities deemed eligible as collateral.

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain 1995 amounts have been reclassified to conform with 1996 presentation.

4. Cash and Investments

Cash represents balances on deposit with banks. Cash and investments are restricted to the specific purposes cited by the Trust Agreements including administration, operations and public protection, payment of bond principal and interest, costs of turnpike and tunnel repairs, resurfacing, and reconstruction projects.

The carrying amount of the Authority's cash deposits at December 31, 1996 and 1995 was \$28,209,075 and \$13,781,024, respectively. The bank balance at December 31, 1996 and 1995 was \$27,712,985 and \$16,151,079, respectively. Reconciling items between the carrying amount and the bank balance consisted principally of outstanding checks which had not cleared at year-end and deposits in-transit. Of the bank balances at December 31, 1996, \$14,202,654 was covered by federal depository insurance or collateralized with securities held by the Authority or by its agent in the Authority's name, and \$13,510,331 was uninsured and uncollateralized. As of December 31, 1995, these balances were \$9,720,094 and \$6,430,985, respectively.

The following summary categorizes restricted investments held as of December 31 at amortized cost:

	<u>1996</u>	<u>1995</u>
U.S. Treasury Securities	\$ 60,316,714	\$ 73,654,860
Money Market Accounts	10,855,962	43,932,487
Repurchase Agreements	143,124,440	29,166,000
Certificates of Deposits	100,000	100,000
Direct Investments	<u> </u>	<u>95,659,206</u>
Total Restricted Investments	<u><u>\$214,397,116</u></u>	<u><u>\$242,512,553</u></u>

Market value of restricted investments approximates cost for each of the security categories listed.

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

U.S. Treasury Securities are held by the bond Trustees pursuant to the terms of the Trust Agreements. U.S. Treasury Securities are generally held to maturity and typically mature within two years. Money market funds are managed by Fidelity Investments and investments are made only in debt obligations issued or guaranteed as to principal and interest by the U.S. Government. Repurchase agreements are collateralized with securities held by the pledging financial institution's trust department in the Authority's name. Direct investments consisted of two Investment Agreements with Qualified Financial Institutions as defined in the 1993 Trust Agreement. The Investment Agreements pay interest at a fixed rate and had initial maturity dates of December 1, 1997 and April 14, 1998. The Authority had the right to withdraw funds prior to the maturity date subject to the terms of the Investment Agreement. These funds were fully withdrawn in 1996.

The following summarizes cash and investments as of December 31 by the various funds and accounts established and restricted under the Trust Agreements:

	1996	1995
Revenue Fund	\$ 21,182,885	\$ 18,775,702
Sinking Fund:		
Bond Interest Account		63,026,399
Debt Service Account	36,918,962	6,223,342
General Reserve Account	27,914,535	8,222,472
Redemption Account	24,406,842	20,647,231
Repair and Reconstruction Fund	32,572,925	57,223,499
Toll Rate Stabilization Fund	2,227,382	
1996 BAN Fund	69,376,975	
1996 BAN Construction Fund	1,082,451	
1986 Series A Construction Fund		6,000,585
1993 Series A Construction Fund	22,368,166	71,026,134
1990 MIFA Construction Fund		100,558
Insurance Fund	2,551,776	222,212
Current Expense Fund		888,483
Operating Reserve Fund		2,722,076
Ted Williams Tunnel:		
Transition Fund	236,545	1,109,461
Revenue Fund	1,766,747	105,423
Totals	<u>\$242,606,191</u>	<u>\$256,293,577</u>

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

5. Fixed Assets

The following is a summary of changes in fixed assets during 1996 and 1995:

	Balance January 1, 1996	Additions	Balance December 31, 1996
Land	\$ 76,232,550	\$ 3,388,360	\$ 79,620,910
Infrastructure	593,427,812	37,013,692	630,441,504
Improvements to Turnpike and Tunnels	300,383,098	75,857,823	376,240,921
Buildings	36,062,959	5,558,996	41,621,955
Equipment	17,134,587	8,588,890	25,723,477
Less: Accumulated Depreciation	(373,661,607)	(28,114,977)	(401,776,584)
Net Fixed Assets	<u>\$ 649,579,399</u>	<u>\$ 102,292,784</u>	<u>\$ 751,872,183</u>

	Balance January 1, 1995	Additions	Balance December 31, 1995
Land	\$ 71,129,313	\$ 5,103,237	\$ 76,232,550
Infrastructure	453,971,105	139,456,707	593,427,812
Improvements to Turnpike and Tunnels	249,657,896	50,725,202	300,383,098
Buildings	27,030,236	9,032,723	36,062,959
Equipment	14,335,365	2,799,222	17,134,587
Less: Accumulated Depreciation	(351,679,299)	(21,982,308)	(373,661,607)
Net Fixed Assets	<u>\$ 464,444,616</u>	<u>\$185,134,783</u>	<u>\$ 649,579,399</u>

In 1993, the Turnpike initiated a \$500,000,000 five-year reconstruction and improvement program. In connection with this program, the Turnpike has entered into construction contracts with various construction and engineering companies. The Authority also enters into construction contracts for the Sumner and Callahan Tunnels with various construction and engineering companies. Construction contracts outstanding at December 31, 1996 approximated \$74.9 million. Projected construction expenditures for 1997 approximate \$55 million.

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

6. Bonds and Notes Payable

Bond anticipation notes, revenue bonds outstanding and notes payable as of December 31 are as follows:

	<u>1996</u>	<u>1995</u>
1996 Guaranteed Bond Anticipation Notes	\$259,315,000	
Add unamortized premium	3,955,208	
Total Guaranteed Bond Anticipation Notes	263,270,208	
1993 Revenue Bonds		
Series A—Serial Bonds ¹	102,200,000	\$102,200,000
Series A—Term Bonds ²	263,355,000	263,355,000
1962 Revenue Bonds		
Series A—4.75 percent ³		12,571,000
Series A—4.15 percent ⁴		5,112,000
Total Revenue Bonds	365,555,000	383,238,000
Less unamortized discount	(14,466,209)	(15,634,040)
Total Revenue Bonds, net	351,088,791	367,603,960
Note Payable-MIFA		44,900,000
Less unamortized discount		(1,619,114)
Note Payable-MIFA, net		43,280,886
Less unamortized deferred amount on refunding	(10,172,910)	
Total Bond Anticipation Notes, Revenue Bonds and Note Payable	<u>\$604,186,089</u>	<u>\$410,884,846</u>

¹ Series A—Serial Bonds with interest rates ranging from 4% to 5.10%, issued \$102,200,000; due January 1, 1998 through January 1, 2008.

² Series A—Term Bonds with interest rates ranging from 5% to 5.125%, issued \$263,355,000; due in increments January 1, 2013 through January 1, 2023.

³ Series A—4.75%, issued \$100,000,000; due January 1, 2002.

⁴ Series A—4.15%, issued \$38,000,000; due January 1, 2002.

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

On January 1, 1962, the Authority issued \$218,000,000 in Turnpike Revenue Bonds—1962 Series A and Series B, to pay for the cost of the Boston Extension. In 1984, the Authority advance refunded the entire \$80,000,000 in 1962 Series B Revenue Bonds. The 1962 Series A Revenue Bonds are redeemable prior to maturity at the principal amount of the bonds, with interest accrued to the date fixed for redemption, plus a premium ranging from 1 percent to 6 percent over a prescribed period of 10 to 21 years after the redemption of the 1962 Series B Revenue Bonds and at par thereafter. The 1962 Series A Revenue Bonds are secured by a pledge of all Massachusetts Turnpike tolls and revenues, subject only to the payment of operating expenses.

During the year ended December 31, 1996 and 1995, the Authority retired \$12,571,000 and \$8,095,000, respectively, of the 1962 Series A Revenue Bonds and recognized an extraordinary loss of \$947,514 and \$305,532, respectively, representing the premium paid in each year to redeem the bonds.

On July 16, 1986, the Authority issued \$40,000,000 in Turnpike Improvement Revenue Bonds—1986 Series A for turnpike improvements. The 1986 Series A Revenue Bonds were refunded in full on March 1, 1993 in connection with the issuance of the Turnpike Revenue Bonds—1993 Series A.

On March 1, 1993, the Authority issued \$365,555,000 in Turnpike Revenue Bonds—1993 Series A, to refund the Turnpike Improvement Revenue Bonds—1986 Series A, as previously discussed, as well as to finance a portion of the cost of certain repairs and improvements to the Turnpike to be undertaken by the Authority in connection with its proposed five-year reconstruction and improvement program.

The Turnpike Revenue Bonds—1993 Series A are redeemable prior to maturity as follows:

- The 1993 Series A Serial Bonds maturing on or before January 1, 2003, in the aggregate amount of \$49,385,000, are not subject to redemption prior to maturity.
- The 1993 Series A Serial Bonds maturing after January 1, 2003, in the aggregate amount of \$52,815,000, will be subject to redemption at the option of the Authority at a redemption price of 102 percent in 2003, 101 percent in 2004, and 100 percent thereafter, plus accrued interest to date of redemption.
- The 1993 Series A Term Bonds maturing January 1, 2013, and January 1, 2020, in the aggregate amount of \$194,195,000, are subject to redemption at the option of the Authority on or after January 1, 2003, at the price of 100 percent of principal amount plus accrued interest to date of redemption.

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

- The 1993 Series A Revenue Bonds maturing January 1, 2013, January 1, 2020, and January 1, 2023, are subject to mandatory sinking fund redemption, requiring payment of 100 percent of the principal amount of the 1993 Series A Revenue Bonds called for redemption, plus interest accrued to the fixed redemption dates ranging from 2009 through 2023.

On January 15, 1996, the Authority issued \$259,315,000 in Guaranteed Bond Anticipation Notes. The Notes are unconditionally guaranteed by the Commonwealth. The Notes mature on June 1, 1999, and are anticipated to be repaid by the Authority with the proceeds from bonds secured by the revenues of the Sumner–Callahan–Williams Tunnels to be issued in the future.

Debt service requirements on bond anticipation notes and revenue bonds subsequent to December 31, 1996 are as follows:

Year Ending December 31	Principal	Interest	Total
1997		\$ 31,021,778	\$ 31,021,778
1998	\$ 7,400,000	30,873,778	38,273,778
1999	267,010,000	24,081,308	291,091,308
2000	8,020,000	17,260,398	25,280,398
2001	8,370,000	16,895,633	25,265,633
Thereafter	334,070,000	217,584,222	551,654,222
Total	<u>\$624,870,000</u>	<u>\$337,717,117</u>	<u>\$962,587,117</u>

Pursuant to the Loan and Trust Agreement dated October 1, 1990, the Authority was obligated under a note payable to the Massachusetts Industrial Finance Agency (MIFA) for the loaned proceeds resulting from the sale of MIFA Tunnel Revenue Bonds–Massachusetts Turnpike Authority Issue, Series 1990–9 percent. The bonds were due October 1, 2020. Principal sinking fund payments of \$500,000 were made in 1995.

In January 1996, approximately \$56,573,000 of the net proceeds from the issuance of the Guaranteed Bond Anticipation Notes was used to purchase U.S. Government securities which were then deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the MIFA Tunnel Revenue Bonds. As a result, the MIFA Tunnel Revenue Bonds were considered to be defeased and the liability for those bonds has been removed from the balance sheet.

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$14.2 million. This difference, reported in the accompanying financial statements as a deduction from Bonds and Notes Payable, is being charged to operations through June 1, 1999 using the straight-line method. The Authority completed the advance refunding to reduce its debt service payments over the next 25 years by approximately \$48 million and to obtain an economic gain of approximately \$13 million.

7. Employee Benefit Plans

By enactment of Chapter 597 of the Acts of 1967 and acceptance thereof by the Authority, the Massachusetts Turnpike Authority Employees' Retirement System (the Retirement System) was created. The Retirement System is a funded defined benefit pension plan by which, effective July 1, 1968, substantially all employees of the Authority are entitled to retirement benefits in accordance with the provisions of the Massachusetts Contributory Retirement Law (Chapter 32 of the General Laws, Sections 1-28).

Employees with 10 or more years of service are entitled to annual pension benefits beginning at retirement age 55, and earlier retirement is allowed upon completion of 20 years of service. The benefit is based upon compensation levels, age, and years of service. If a member dies in service, the surviving spouse, dependent children, or other beneficiaries may be entitled to receive benefits. The covered employees are required to contribute 5 percent to 10 percent (dependent upon date of hire) of their salary to the Retirement System.

The payroll for Authority employees covered by the Retirement System was approximately \$49,311,000 for the year ended December 31, 1996 (\$49,722,000 in 1995). The Authority's total payroll for the same period was approximately \$58,369,000 (\$69,387,000 in 1995).

Pursuant to Section 22 (7)(e), as amended, the Authority is required to pay annually to the Massachusetts Turnpike Authority Employees' Retirement System, amounts determined by the Division of Public Employees' Retirement Administration (PERA) as necessary for payment of pension benefits to retired employees of the Authority and their beneficiaries and for the expenses of said system. Under the enactment of Chapter 566 of the Acts of 1978, the Authority is required to fund and pay the Retirement System the sum of (a) the normal pension cost for the current year and (b) an amount sufficient to amortize any unfunded past service liability prior to the dissolution of the Authority.

Accumulated Plan Benefits are those future periodic payments that are attributable under the Retirement System's provisions to the services employees have rendered. Accumulated Plan Benefits include benefits expected to be paid to retired or terminated employees or their beneficiaries, beneficiaries of employees who have died, and present employees or their beneficiaries. Benefits payable under all circumstances are included to the extent they are deemed attributable to employee service rendered to the valuation date.

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

The actuarial present value of Accumulated Plan Benefits as last determined by an independent actuary at January 1, 1996 was as follows:

Current Employees:	\$79,084,826
Inactive Participants	41,602,131
Total Pension Benefit Obligation	<u>120,686,957</u>
Market Value of Retirement System Assets	<u>119,114,644</u>
Unfunded Pension Benefit Obligation	<u><u>\$ 1,572,313</u></u>

Inactive participants include retirees, disabled individuals, beneficiaries currently receiving benefits and employees not yet receiving benefits.

Information regarding the actuarial present value Accumulated Plan Benefits applicable to current employees allocated among employee contributions, Authority-financed vested contributions and Authority-financed non-vested contributions as of January 1, 1996 is not available. As of January 1, 1995, the most recent date for which such information was available, the amounts were as follows:

Employee Contributions	\$27,951,497
Authority-financed, Vested	15,016,410
Authority-financed, Non-vested	<u>25,661,693</u>
	<u><u>\$68,629,600</u></u>

The present value of Accumulated Plan Benefits is determined by applying actuarial assumptions to adjust the Accumulated Plan Benefits to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment. The significant assumptions used in the actuarial valuation of the Retirement System were (a) the life expectancy of the participants using the 1971 Group Annuity Mortality Table, (b) retirement age assumptions, (c) investment return rate (8.5% per annum), (d) rate of inflation (4.5% per annum), (e) projected salary increases (6.0% per annum, of which 4.5% represents inflation and 1.5% represents longevity, productivity, and merit increases) and (f) annual cost of living increases for payments following retirement (2.0%).

As a condition of participation, employees are required to contribute 5% of their salary if hired prior to January 1, 1975, 7% if hired after January 1, 1975 and before January 1, 1984, 8% if hired after January 1, 1984 and before July 1, 1996, and 9% if hired after July 1, 1996. Employees hired after January 1, 1979 contribute an additional 2% of earnings in excess of \$30,000 per year. Overtime and extra pay are not subject to these assessments. Total employee contributions for 1996 and 1995 were approximately \$4,371,000 and \$3,868,000, respectively, which represent 8.9% and 8.0%, respectively, of covered payroll.

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

The Authority's required contribution is determined by an independent actuary in accordance with the funding plan approved by the Commonwealth of Massachusetts Division of Public Employee Retirement Administration and using the same assumptions as those used to determine the Pension Benefit Obligation. The Authority's required contribution for 1996 was \$2,443,952 (\$2,182,803 in 1995) of which \$2,018,457 represented the employer normal cost and \$425,495 represented the amortization of the expected unfunded actuarial accrued liability. The Authority's actual contribution in 1996 was \$5,619,856 (\$2,285,331 in 1995). Authority contributions for the years ended December 31, 1996, 1995, and 1994, represented 11.4%, 4.7%, and 4.8%, respectively, of the annual covered payroll.

At January 1, 1996, 1995, and 1994, assets were available to fund approximately 99%, 90%, and 98%, respectively of the pension benefit obligation. The unfunded pension benefit obligation at January 1, 1996, 1995, and 1994 represented approximately 3%, 24%, and 4%, respectively, of the annual covered payroll of the preceding year.

Multi-year trend information as to the progress made in accumulating assets to pay benefits may be found in the publicly available annual report of the Retirement System.

Retirees Group Medical Benefits

The Authority provides certain health care benefits for its retired employees. Currently, approximately 570 retirees or retiree spouses meet the eligibility requirements. The cost of retiree health care benefits is recognized as an expense when paid. The expense recognized in 1996 and 1995 was approximately \$1,312,000 and \$1,171,000. As of January 1, 1996 and 1995, the Authority's actuarial advisor estimated the present value of the cost of the unfunded retiree health benefits program to be \$7,683,000 and \$21,833,000, respectively. The Authority has adopted a funding plan to provide for the amortization of the unfunded retiree benefits.

Deferred Compensation Plan

In 1981, the Authority adopted the Massachusetts Turnpike Authority Deferred Compensation Plan (the Plan) whereby an employee who elects to participate may defer the receipt of a specified amount of compensation. Such deferred compensation is payable to the participant on retirement, death, disability, or financial hardship. The Authority maintains agreements, principally with Aetna Life Insurance and Annuity Company, for certain administrative functions of the Plan. For accounting purposes, the Plan's assets and liabilities are recorded on the books and records of the Authority at market value. As of December 31, 1996 and 1995, the value of the Plan was \$15,047,325 and \$12,683,432. Plan assets are invested principally in various Aetna funds. All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income amounts are solely the property and rights of the Authority, subject only to the claims of the Authority's bondholders and other creditors. The Authority believes that it is unlikely that it will use the assets to satisfy the claims of creditors in the future.

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

Compensated Absences

Certain employees of the Authority can accumulate unused vacation and sick time which can be used at a later date or paid in cash upon termination and/or retirement from the Authority. The accrued liability for compensated absences was \$5,650,824 and \$7,697,864 as of December 31, 1996 and 1995, respectively. The expense related to this accrual is included in administrative expense in the accompanying financial statements.

8. Leases

The Authority has commitments under operating leases for administrative office space and automatic toll collection equipment. These operating leases expire on various dates through June 2000 and are generally expected to be renewed or replaced by similar leases. Lease expense charged to the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels in 1996 and 1995 was \$873,380 and \$1,012,638, respectively, of which \$554,207 and \$440,921, respectively was paid to the Commonwealth for office space in a state owned building. Future minimum lease payments under the above leases are as follows:

1997	\$ 852,809
1998	654,705
1999	582,790
2000	<u>295,878</u>
Total	<u>\$2,386,182</u>

The Authority leases property and air rights to others. During 1996 and 1995, the Authority earned \$4,566,813 and \$6,949,372 in rental income. Rental income for the next five years is expected to approximate \$4 million per year based on leases currently in effect.

9. Contingent Liabilities

The Authority from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Others include disputes with contractors, subcontractors, and others arising from the construction or maintenance of the tunnels and turnpike. The Authority does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

Massachusetts Turnpike Authority
Notes to Financial Statements (continued)

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. Certain risks are self-insured while others are covered by commercial insurance. The Authority has obtained health coverage for most employees through various commercial health maintenance organizations. The health coverage for certain other employees as well as coverage for job-related injuries to all employees is self-insured by the Authority, with the risks managed internally. During 1996 and 1995, the Authority incurred costs of approximately \$2,284,000 and \$5,873,000, respectively, for health claims and job-related injuries and paid claims of approximately \$2,807,000 and \$4,220,000, respectively, under these self-insurance programs. At December 31, 1996 and 1995, the accrual for outstanding claims under these programs, including claims incurred but not reported, was approximately \$14.0 million and \$16.6 million, respectively.

The Authority has obtained insurance coverage from various commercial insurers for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Members of the Board of Directors
Massachusetts Turnpike Authority
Boston, Massachusetts

We have audited the accompanying balance sheets of the Massachusetts Turnpike Authority (the Authority) as of December 31, 1996 and 1995, and the related statements of revenues, expenses and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Turnpike Authority at December 31, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
March 7, 1997

Employees' Retirement System
Statements of Net Assets Available for Benefits
December 31, 1996 and 1995

Assets	1996	1995
Investments, at Fair Value (Note 5)		
U.S. Government Securities	\$ 24,506,735	\$ 37,448,349
Equities - Combined Investment Funds	31,819,707	29,843,922
Mortgage Certificates	20,099,009	20,629,504
Asset Backed Securities	2,529,980	5,464,061
Commingled Trust Funds	26,703,942	
International Trust Fund	11,249,685	
Miscellaneous Notes and Bonds	3,956,155	7,260,715
Cash and Cash Equivalents	12,637,627	17,560,519
Total Investments	133,502,840	118,207,070
Accounts Receivable	7,786	122,312
Interest and Dividends Receivable	676,129	1,086,044
Principal Adjustment Account	2,687	13,437
Total Assets	134,189,442	119,428,863
Liabilities	(542,298)	(314,219)
Net Assets Available For Benefits	\$133,647,144	\$119,114,644
<i>(A schedule of Funding Progress is presented)</i>		

See Independent Auditor's Report and accompanying notes.

Employees' Retirement System

Statements of Changes In Net Assets Available For Benefits

For The Years Ended December 31, 1996 and 1995

Additions

Investment Income

	1996	1995
Net Appreciation in Fair Value of Investments (<i>Note 5</i>)	\$ 4,970,384	\$ 13,191,084
Net Investment Income	6,584,186	7,801,749
Total Investment Income	11,554,570	20,992,833

Contributions (*Note 3*)

Employee	4,161,032	3,766,085
Transfers from Other Systems	569,555	101,593
Total Contributions	4,730,587	3,867,678

Other Additions to Net Assets

Expense Fund Appropriation	338,856	341,557
Section 3(8)(c) Reimbursements Received	279,779	259,415
Pension Fund Appropriation	1,966,076	1,943,774
Pension Fund Reserve Appropriation	3,314,924	
Total Other Additions	5,899,635	2,544,746
Total Additions	22,184,792	27,405,257

Deductions

Benefits Paid - Pension Payments	5,603,183	4,430,308
Benefits Paid - Annuity Payments	981,540	682,975
Member Refunds	681,838	246,417
Administrative Expenses	289,431	402,346
Section 3(8)(c) Reimbursements Paid	60,811	56,038
Amortization - Principal Adjustment Account	10,750	19,903
Transfers to Other Systems	24,739	42,180
Total Deductions	7,652,292	5,880,167

Net Increase in Net Assets	14,532,500	21,525,090
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Net Assets Available for Benefits

Beginning of Year	119,114,644	97,589,554
End of Year	\$133,647,144	\$119,114,644

See Independent Auditor's Report and accompanying notes.

Employees' Retirement System
Notes to Financial Statements (continued)
December 31, 1996 and 1995

1. Description Of Plan

The following description of the Massachusetts Turnpike Authority Employees' Retirement Plan ("Plan") is provided for general information purposes only. Participants should refer to the Plan agreement for more detailed information.

(a) General

The Plan is a funded defined benefit pension plan. It is subject to the provisions of Chapter 32 of the Massachusetts General Laws. The Plan covers substantially all Massachusetts Turnpike Authority employees. Membership in the Plan consisted of the following at January 1, 1996, the date of the latest actuarial update.

Retirees and Beneficiaries Receiving Benefits	563
Terminated Plan Members Entitled to, but not yet Receiving Benefits	9
Active Plan Members	<u>1,337</u>
Total	<u>1,909</u> =====

(b) Pension Benefits - Employees with 10 or more years of service are entitled to pension benefits beginning at retirement age 55, and earlier retirement is allowed upon completion of 20 years of service. The benefit is based on compensation levels, age, and years of service.

(c) Death and Disability Benefits - If a member in service dies, the surviving spouse and/or surviving dependent children may receive benefits, either in a lump sum or in the form of an annuity based on the length of service, contributions, age, and the cause of death. In the event there are no spouse and/or dependent children named, other beneficiaries may be entitled to a lump sum distribution.

2. Summary Of Significant Accounting Policies and Plan Asset Matters

The following are the significant accounting policies followed by the Plan.

(a) Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with practices prescribed or permitted by the Commonwealth of Massachusetts Public Employees Retirement Administration (PERA). Contributions from the Massachusetts Turnpike Authority and the Authority's employees are recognized as revenue in the period in which employees provide services to the Authority.

Employees' Retirement System
Notes to Financial Statements (continued)

Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at Fair Market Value. Investment income is recognized as earned by the pension plan. The net appreciation (depreciation) in the fair value of investments held by the pension plan is recorded as an increase (decrease) to investment income based on the valuation of investments as of the date of the Statement of Net Assets Available for Benefits. Realized gain (loss) on individual securities sold within the trust funds are shown in investment income.

3. Funding Policy

As a condition of participation, employees are required to contribute 5% of their salary if hired prior to January 1, 1975, 7% if hired after that date and before January 1, 1984, 8% if hired after that date and before July 1, 1996, and 9% if hired after July 1, 1996. Employees hired after January 1, 1979, contribute an additional 2% of earnings in excess of \$30,000 per year. Overtime and extra pay are not subject to these assessments. The Massachusetts Turnpike Authority contributes to the Massachusetts Turnpike Authority Employees' Retirement System. The appropriations are made for the Plan's administrative expenses and to provide for the following years' retirement benefits which are made in accordance with the funding plan approved by the Commonwealth of Massachusetts Division of Public Employee Retirement Administration.

4. Plan Obligation

Chapter 32, Section 25(4) of the Massachusetts General Laws states that the payment of all annuities, pensions, retirement allowances, and refunds of accumulated total deductions and of any other benefits granted under the provisions of Sections 1-28, inclusive, are obligations of the Massachusetts Turnpike Authority, the governmental entity in which the Plan is established.

Employees' Retirement System

Notes to Financial Statements (continued)

5. Investments

The Vanguard Trust Fund was liquidated in 1995 and the proceeds were used to provide funds for two new domestic equity investment managers. The following tables present the values of investments at December 31, 1996 and 1995.

Investments at December 31, 1996

	Par Value	Book Value	Fair Value
U.S. Government Securities	\$ 24,029,729	\$ 24,094,984	\$ 24,506,735
Equities - Combined Investment Funds		31,819,707	31,819,707
Mortgage Certificates	23,994,060	20,571,652	20,099,009
Asset Backed Securities	2,500,000	2,458,330	2,529,980
*Commingled Trust Funds	17,015,285	24,615,427	26,703,942
*International Trust Fund	664,090	10,000,000	11,249,685
Miscellaneous Notes and Bonds	4,000,000	3,902,617	3,956,155
Cash and Cash Equivalents		12,637,627	12,637,627
Total Investment		\$130,100,344	\$133,502,840

Investments at December 31, 1995

	Par Value	Book Value	Fair Value
U.S. Government Securities	\$ 34,800,000	\$ 35,192,725	\$ 37,448,349
Equities - Combined Investment Funds		29,843,922	29,843,922
Mortgage Certificates	20,576,529	20,576,529	20,629,504
Asset Backed Securities	5,440,786	5,440,786	5,464,061
Miscellaneous Notes and Bonds	7,000,000	6,673,049	7,260,715
Cash and Cash Equivalents		17,560,519	17,560,519
Total Investment		\$115,287,530	\$118,207,070

* Commingled Trust Funds represent investments in two group trusts (Bond Index Fund Group Trust, and the Equity Index Fund Group Trust). Both the Commingled Trust Fund and the International Trust Fund have balances greater than 5% of fair value at December 31, 1996 (Note 9).

Employees' Retirement System
Notes to Financial Statements (continued)

Net Appreciation in Fair Value

During 1996 and 1995, the Plan's investments (including investments bought as well as held during the year) appreciated (depreciated) in value as follows:

	<u>1996</u>	<u>1995</u>
U.S. Government Securities	\$ (1,843,873)	\$ 3,277,257
Equities - Combined Investment Funds	3,722,132	6,693,992
Mortgage Certificates	(524,055)	759,541
Asset Backed Securities	48,375	237,281
Miscellaneous Notes and Bonds	(640,698)	858,175
*Commingled Trust Funds	1,827,550	
*International Trust Fund	1,249,685	
	<hr/>	<hr/>
Appreciation In Fair Value	3,839,116	11,826,246
	<hr/>	<hr/>
Net Realized Gain on Investments	1,131,268	1,364,838
	<hr/>	<hr/>
Net Appreciation In Fair Value	<u><u>\$ 4,970,384</u></u>	<u><u>\$13,191,084</u></u>

* Included in this line item is realized gain (loss) on individual securities sold within the trust funds.

Category One bank deposits and investments are fully insured or collateralized with securities held by the System's Agent and in the System's name. There are no Category Two or Three credit risk deposits or investments. These categories of risk assessments are prescribed by Statement No. 3, paragraphs 67 and 68, of the Government Accounting Standards Board.

Employees' Retirement System
Notes to Financial Statements (continued)

The Category One risk assessments at Book Value for the years ended December 31, 1996 and 1995 are as follows:

	<u>1996</u>	<u>1995</u>
U.S. Government Securities	\$ 24,094,984	\$ 35,192,725
Equities - Combined Investment Funds	31,819,707	29,843,922
Mortgage Certificates	20,571,652	20,576,529
Asset Backed Securities	2,458,330	5,440,786
Miscellaneous Notes and Bonds	3,902,617	6,673,049
Bank Deposits (NB)	12,695,185	17,615,299
Commingled Trust Funds	24,615,427	
International Trust Fund	10,000,000	
Totals	<u><u>\$130,157,902</u></u>	<u><u>\$115,342,310</u></u>

NB: Bank deposits reflect balances in Depository Banks without adjustment for in-transit items and, therefore, do not equal book balances.

6. *Accumulated Plan Benefits*

Actuarial present value of Accumulated Plan Benefits as last determined by an independent actuary at January 1, 1996 and 1995, respectively, are as follows:

	<u>1996</u>	<u>1995</u>
Current Employees	\$ 79,084,826	\$ 68,629,600
Inactive Participants		
Retirees, Disabled Individuals, and Beneficiaries		
Currently Receiving Benefits and Employees Not		
Yet Receiving Benefits	<u>41,602,131</u>	<u>39,886,960</u>
Total Pension Benefit Obligation	120,686,957	108,516,560
Market Value of Assets	<u>119,114,644</u>	<u>97,589,554</u>
Pension Unfunded Benefit Obligation	<u><u>\$ 1,572,313</u></u>	<u><u>\$ 10,927,006</u></u>

Employees' Retirement System
Notes to Financial Statements (continued)

7. Early Retirement Incentive Program

The Massachusetts Turnpike Authority (the "Authority") was "authorized to develop and implement an early retirement process for its employees" by provision of Section 312 of Chapter 110 of the Acts of 1993. The process was subsequently approved by the House and Senate Ways and Means Committees.

Eligible employees must have filed a "Notice of Intent" to apply for early retirement to the Massachusetts Turnpike Authority Employees' Retirement Board between August 1, 1995 and August 15, 1995. Retirements under the process shall be effective from March 15, 1996 through December 31, 1996.

8. Concentration of Credit Risk

The Plan maintains cash balances at several banks and investment companies. Cash accounts in each financial institution are insured by the Federal Deposit Insurance Corporation (up to \$100,000). Investments are not insured against market fluctuations, however, are insured against fraud by investment managers.

9. Contingencies

There are various pending claims arising in the ordinary course of operations, however, management estimates that the probable liability resulting from such litigation would not materially affect the Plans' financial position.

Massachusetts General Law (M.G.L. c.32, s.20.03(1)) restricts investments in international equities to 5% of the portfolio Market Value. At present, the plan is in violation of this law, however, the plan has filed a waiver to this regulation.

The most recent actuarial update on the plan does not consider the impact of the early retirement program in Note 7. The early retirement program will have a significant impact on January 1, 1997 liabilities.

Employees' Retirement System

Notes to Financial Statements (continued)

10. Supplemental Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of January 1, 1996, the date of the latest actuarial update.

Actuarial Cost Method	Entry Age
Amortization Method	Level Funded
Amortization Period	15 Years

Actuarial Assumptions:

Investment Rate of Return	8.5%
Projected Salary Increases	6.0%
Inflation Rate	4.5%
Cost of Living Adjustment	2.0%

Employees' Retirement System
Required Supplementary Information
Revenue By Source and Expenses By Type
(Unaudited)

REVENUES BY SOURCE

Year	Employee Contributions	Employer Contributions	% of Annual Covered Payroll	Investment Income	Total
1989	\$ 2,219,066	\$ 5,120,487	16.4%	\$ 5,721,440	\$ 13,060,993
1990	2,514,650	4,300,494	13.8	5,903,192	12,718,336
1991	2,870,687	2,084,498	5.0	7,281,184	12,236,369
1992	3,200,821	2,084,886	4.7	7,758,303	13,044,010
1993	3,283,168	2,657,990	6.2	8,129,593	14,070,751
1994	3,632,932	2,201,383	4.8	4,442,648	10,276,963
1995	3,867,678	2,285,331	4.7	16,164,125	22,317,134
1996	4,370,587	5,619,856	4.5	12,056,491	22,046,934

EXPENSES BY TYPE

Year	Benefits Paid	Administrative Expenses	Refunds and Transfers	Investment Expenses	Total
1989	\$ 3,569,917	\$ 130,170	\$ 217,889	\$ 40,913	\$ 3,958,889
1990	3,768,890	274,629	206,035	78,266	4,327,820
1991	3,887,850	195,594	181,959	74,716	4,340,119
1992	4,151,720	245,633	250,135	109,599	4,757,087
1993	4,419,400	283,215	116,760	107,575	4,926,950
1994	4,683,644	313,892	412,981	197,472	5,607,989
1995	4,909,906	402,346	281,884	330,163	5,924,299
1996	6,365,755	114,742	706,577	501,920	7,688,994

See Independent Auditor's Report.

Employees' Retirement System
Required Supplementary Information
Analysis of Funding Progress
(Unaudited)

Fiscal Year	Net Assets Available for Benefits*	Pension Benefit Obligation	Percentage Funded	Unfunded (Overfunded) Pension Benefit Obligation	Annual Covered Payroll	% of Covered Payroll
1989**	\$64,022,705	\$65,245,330	98.1%	\$ 1,222,625	\$31,129,294	3.9%
1990	71,332,449	69,420,529	102.8%	(1,911,920)	30,994,192	(6.2%)
1991	83,042,395	85,669,435	96.9%	2,627,040	41,128,256	6.4%
1992	90,249,950	93,699,796	96.5%	3,449,846	43,857,989	7.5%
1993	98,143,844	100,069,012	98.1%	1,925,168	42,838,770	4.5%
1994	97,589,554	108,516,560	89.9%	10,927,006	45,461,124	24.0%
1995	119,114,644	120,686,957	98.7%	1,572,313	49,311,019	3.2%

* Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in assets in excess of pension benefit obligation and annual benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the larger the percentage, the stronger the PERS.

** Pension benefit obligation information for the Plan years 1985 through 1988 and for the year 1996 are unavailable, and, accordingly, only the 1989 through 1995 information is presented here.

See Independent Auditor's Report.

Members of the Board
Massachusetts Turnpike Authority
Employees' Retirement System
Boston, Massachusetts

We have audited the accompanying statements of net assets available for benefits of the Massachusetts Turnpike Authority Employees' Retirement System as of December 31, 1996 and 1995, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2(a), these financial statements were prepared on a modified system of accounting based on the rules and regulations of the Massachusetts' Commissioner of Public Employees' Retirement Administration, which is a comprehensive basis of accounting other than generally accepted accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Massachusetts Turnpike Authority Employees' Retirement System as of December 31, 1996 and 1995, and the changes in net assets available for benefits for the years then ended, on the basis of accounting described in Note 2(a).

The schedules of required supplementary information (revenues by source and expenses by type and analysis of funding progress) are presented and are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Boston, Massachusetts
February 18, 1997

DI PESA & COMPANY
DiPesa & Company
Certified Public Accountants



State Transportation Building
Ten Park Plaza, Suite 5170
Boston, MA 02116